

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on John Taolo Gaetsewe District Municipality

Report on the financial statements

Introduction

1. I audited the financial statements of the John Taolo Gaetsewe District Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of Grap) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (Dora), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting

estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the John Taolo Gaetsewe District Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of Grap and the requirements of the MFMA and Dora.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 2016 in the financial statements of the John Taolo Gaetsewe District Municipality at, and for the year ended, 30 June 2015.

Material underspending of the budget

9. As disclosed in the appropriation statement, the municipality materially underspent the budget to the amount of R6 176 376.

Irregular expenditure

10. As disclosed in note 36 to the financial statements, the municipality incurred irregular expenditure of R2 493 810 (2015: R9 777 582) during the year under review mainly due to non-compliance with supply chain management requirements. The total amount of irregular expenditure recorded in the annual financial statements at 30 June 2016 amount to R12 310 905 (2015: R9 817 095)

Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Unaudited supplementary information

13. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon

Report on other legal and regulatory requirements

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Development priority 1: basic services and infrastructure, on pages x to x
 - Development priority 2: local economic development, on pages x to x.
16. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPI).
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the selected development priorities are as follows:

Basic services and infrastructure

Usefulness of reported performance information

19. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting

documents. A total of 25% reported objectives were not consistent with those in the approved integrated development plan.

Local economic development

Usefulness of reported performance information

20. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 29% reported objectives were not consistent with those in the approved integrated development plan.

Additional matters

21. I draw attention to the following matters:

Achievement of planned targets

22. Refer to the annual performance report on page(s) x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information in paragraphs 17 and 18 of this report.

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of development priority 1: basic services and infrastructure and development priority 2: local economic development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness of the reported performance information.

Unaudited supplementary schedules

24. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report on them.

Compliance with legislation

25. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

26. The service delivery and budget implementation plan for implementing the municipality's delivery of municipal services and annual budget did not indicate projections for each month of the revenue to be collected, by source and/or the operational and capital expenditure, by vote, as required by sections 1 and 53(1)(c) of the MFMA.

Financial statements, performance and annual reports

27. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and/or the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

28. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by supply chain management (SCM) regulation 19(a).
29. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44.

Expenditure management

30. Money owed by the municipality was not always paid within 30 days, as required by section 65(2) (e) of the MFMA.
31. Reasonable steps were not taken to prevent unauthorised irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Consequence management

32. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

Internal control

33. I considered internal control relevant to my audit of the financial statements, draft adjusted annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the draft adjusted annual performance report and the findings on compliance with legislation included in this report.

Leadership

34. The leadership was not fully successful in monitoring the action plan to ensure that corrective actions were taken when required and within the required time frames. This resulted in previous material findings on compliance and reported performance information recurring in the financial year under review.
35. There were inadequate processes to ensure that reviews were performed before submission of the financial statements. However, the material errors that I identified in the financial statements were subsequently adjusted.
36. The municipality's internal processes and systems did not prevent material non-compliances, irregular, unauthorised as well as fruitless and wasteful expenditure.
37. The information technology strategy was not submitted for approval as management was not satisfied with the content of the draft information technology strategy. This was due to a lack of skills and training on documenting the information technology strategy. In addition, the municipality did not have any source document to refer to or benchmark against.

Financial and performance management

38. Finance staff members did not have knowledge of Grap, as a result the municipality chose to use consultants to prepare the annual financial statements. Finance staff members did not use the Grap checklist to ensure that the financial statements prepared were free from errors. This resulted in the material amendments to the financial statements.
39. The collation of different information from various units for incorporation in the annual performance report was not done timeously to allow for adequate reviews. This resulted in the material amendments and the inability to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
40. There were inadequate internal controls over property, plant and equipment. This resulted in inappropriate accounting treatment in terms of the Grap standards. Misstatements were inevitably identified on the financial statements and adjustments to the financial statements needed to be made for overall fair presentation.
41. There was a lack of internal control over the accounting treatment of employee benefits as data provided to the experts for the performance of the provision for employee benefits was not reviewed and assessed by management. This had resulted in misstatements on the financial statements.

Governance

42. Continuous monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting regarding information technology controls.

Auditor - General

Kimberley

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

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